

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Newton  
Contributory Retirement System  
For the Three Year Period  
January 1, 1998 - December 31, 2000  
PERAC 00: 08-068-16**

## **TABLE OF CONTENTS**

Letter from the Executive Director .....	1
Statement Of Ledger Assets And Liabilities .....	2
Statement Of Changes In Fund Balances.....	3
Statement Of Income .....	4
Statement Of Disbursements .....	5
Investment Income .....	6
Statement Of Allocation Of Investments Owned .....	7
Supplementary Investment Regulations .....	8
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	11
Note 2 - Significant Accounting Policies .....	12
Note 3 - Supplementary Membership Regulations .....	14
Note 4 - Administration Of The System .....	16
Note 5 - Actuarial Valuation And Assumptions .....	17
Note 6 - Membership Exhibit.....	18

January 22, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Newton** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2000**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

We commend the **Newton** Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton  
Executive Director

# Newton Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2000**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>ASSETS</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	
Cash	\$1,893,839	\$4,410,349	\$6,260,237	
Short Term Investments	411,090	19,361,087	25,145,863	
Fixed Income Securities (at book value)	0	0	0	
Equities	0	47,073,965	67,680,221	
Pooled Short Term Funds	0	0	0	
Pooled Domestic Equity Funds	117,710,412	68,284,840	31,302,358	
Pooled International Equity Funds	43,757,292	47,915,197	30,352,974	
Pooled Global Equity Funds	0	0	0	
Pooled Domestic Fixed Income Funds	1,961,899	2,134,032	2,259,940	
Pooled International Fixed Income Funds	0	0	0	
Pooled Global Fixed Income Funds	58,100,782	37,616,157	32,791,754	
Pooled Alternative Investment Funds	0	0	0	
Pooled Real Estate Funds	11,855,141	10,362,134	8,113,511	
Pooled Domestic Balanced Funds	0	0	0	
Pooled International Balanced Funds	0	0	0	
PRIT Cash Fund	0	0	0	
PRIT Core Fund	0	0	0	
Interest Due and Accrued	0	316,776	364,926	
Accounts Receivable	5,356	7,147	443,650	
Accounts Payable	(9,448)	(109,993)	(739,397)	
<b>TOTAL</b>	<b>\$235,686,362</b>	<b>\$237,371,690</b>	<b>\$203,976,037</b>	
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$51,469,451	\$49,337,039	\$46,546,638	
Annuity Reserve Fund	19,531,615	18,835,773	18,475,698	
Pension Fund	164,657,065	169,171,227	138,921,979	
Military Service Fund	28,231	27,650	31,722	
Expense Fund	0	0	0	
Pension Reserve Fund	0	0	0	
<b>TOTAL</b>	<b>\$235,686,362</b>	<b>\$237,371,690</b>	<b>\$203,976,037</b>	

# Newton Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2000**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (1998)</b>	\$44,061,938	\$18,021,504	\$124,201,271	\$28,598	\$0	\$0	<b>\$186,313,310</b>
Receipts	5,393,558	536,277	28,822,470	686	999,990	0	<b>35,752,981</b>
Interfund Transfers	(1,923,273)	1,924,843	(4,008)	2,438	0	0	<b>0</b>
Disbursements	(985,585)	(2,006,925)	(14,097,754)	0	(999,990)	0	<b><u>(18,090,254)</u></b>
<b>Ending Balance (1998)</b>	<b>46,546,638</b>	<b>18,475,698</b>	<b>138,921,979</b>	<b>31,722</b>	<b>0</b>	<b>0</b>	<b>203,976,037</b>
Receipts	5,382,933	552,959	44,842,832	647	1,192,091	0	<b>51,971,462</b>
Interfund Transfers	(2,089,492)	2,080,083	14,127	(4,718)	0	0	<b>(0)</b>
Disbursements	<u>(503,040)</u>	<u>(2,272,968)</u>	<u>(14,607,710)</u>	<u>0</u>	<u>(1,192,091)</u>	<u>0</u>	<b><u>(18,575,809)</u></b>
<b>Ending Balance (1999)</b>	<b>49,337,039</b>	<b>18,835,773</b>	<b>169,171,227</b>	<b>27,650</b>	<b>0</b>	<b>0</b>	<b>237,371,690</b>
Receipts	5,885,782	572,034	10,869,080	581	1,321,765	0	<b>18,649,242</b>
Interfund Transfers	(2,378,276)	2,373,141	5,135	0	0	0	<b>0</b>
Disbursements	<u>(1,375,094)</u>	<u>(2,249,334)</u>	<u>(15,388,377)</u>	<u>0</u>	<u>(1,321,765)</u>	<u>0</u>	<b><u>(20,334,570)</u></b>
<b>Ending Balance (2000)</b>	<b><u>\$51,469,451</u></b>	<b><u>\$19,531,615</u></b>	<b><u>\$164,657,065</u></b>	<b><u>\$28,231</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$235,686,362</u></b>

# Newton Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2000**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,431,895	\$4,148,184	\$3,844,074
Transfers from other Systems	322,988	113,558	448,329
Member Make Up Payments and Redeposits	135,638	129,798	74,922
Investment Income Credited to Member Accounts	995,260	991,393	1,026,232
<b>Sub Total</b>	<b><u>5,885,782</u></b>	<b><u>5,382,933</u></b>	<b><u>5,393,558</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<b><u>572,034</u></b>	<b><u>552,959</u></b>	<b><u>536,277</u></b>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	130,198	116,757	102,545
Received from Commonwealth for COLA and			
Survivor Benefits	1,587,709	1,599,953	1,493,473
Pension Fund Appropriation	7,023,577	7,171,778	6,877,330
Federal Grant Reimbursement	147,378	136,602	134,736
Interest Not Refunded	28,501	9,884	13,669
Excess Investment Income	1,951,717	35,807,859	20,200,717
<b>Sub Total</b>	<b><u>10,869,080</u></b>	<b><u>44,842,832</u></b>	<b><u>28,822,470</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account			
of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>581</u>	<u>647</u>	<u>686</u>
<b>Sub Total</b>	<b><u>581</u></b>	<b><u>647</u></b>	<b><u>686</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	163,055	150,443	140,480
Investment Income Credited to Expense Fund	1,158,710	1,041,648	859,510
<b>Sub Total</b>	<b><u>1,321,765</u></b>	<b><u>1,192,091</u></b>	<b><u>999,990</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	0	0	0
Excess Investment Income	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$18,649,242</u></b>	<b><u>\$51,971,462</u></b>	<b><u>\$35,752,981</u></b>

# Newton Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2000**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$774,806	\$214,752	\$410,029
Transfers to other Systems	<u>600,287</u>	<u>288,288</u>	<u>575,556</u>
<b>Sub Total</b>	<b><u>1,375,094</u></b>	<b><u>503,040</u></b>	<b><u>985,585</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,233,938	2,101,983	1,972,299
Option B Refunds	15,396	170,985	34,626
<b>Sub Total</b>	<b><u>2,249,334</u></b>	<b><u>2,272,968</u></b>	<b><u>2,006,925</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	9,638,881	9,000,093	8,632,691
Survivorship Payments	1,285,014	1,234,250	1,129,242
Ordinary Disability Payments	132,180	140,304	149,807
Accidental Disability Payments	2,780,622	2,671,114	2,633,353
Accidental Death Payments	1,132,237	1,137,026	1,178,363
Section 101 Benefits	120,461	110,420	116,155
3 (8) (c) Reimbursements to Other Systems	298,982	314,502	258,144
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>15,388,377</u></b>	<b><u>14,607,710</u></b>	<b><u>14,097,754</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,000
Salaries	112,215	104,253	94,290
Legal Expenses	0	0	0
Medical Expenses	0	3,232	0
Travel Expenses	10,534	9,908	8,057
Administrative Expenses	36,358	34,045	33,741
Furniture and Equipment	382	1,759	12,353
Management Fees	1,032,904	938,856	733,868
Custodial Fees	59,371	45,038	62,682
Consultant Fees	<u>55,000</u>	<u>40,000</u>	<u>40,000</u>
<b>Sub Total</b>	<b><u>1,321,765</u></b>	<b><u>1,192,091</u></b>	<b><u>999,990</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$20,334,570</u></b>	<b><u>\$18,575,809</u></b>	<b><u>\$18,090,254</u></b>

# Newton Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2000**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>Investment Income Received From:</b>			
Cash	194,035	204,974	582,667
Short Term Investments	0	0	0
Fixed Income	638,117	2,056,673	1,924,190
Equities	713,838	921,710	1,191,790
Pooled or Mutual Funds	4,781,079	2,945,318	13,794,841
Commission Recapture	17,135	24,579	<u>17,112</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>6,344,204</u></b>	<b><u>6,153,254</u></b>	<b><u>17,510,600</u></b>
<b>Plus:</b>			
Increase in Amortization of Fixed Income Securities	0	0	2,659
Realized Gains	14,692,545	5,862,824	6,568,689
Unrealized Gains	37,322,001	41,692,381	7,474,665
Interest Due and Accrued on Fixed Income Securities - Current Year	0	316,776	364,926
<b>Sub Total</b>	<b><u>52,014,546</u></b>	<b><u>47,871,982</u></b>	<b><u>14,410,939</u></b>
<b>Less:</b>			
Decrease in Amortization of Fixed Income Securities	0	0	(84,305)
Paid Accrued Interest on Fixed Income Securities	(77,146)	(543,063)	(219,817)
Realized Loss	(12,713,518)	(3,788,360)	(4,889,556)
Unrealized Loss	(40,573,008)	(10,934,381)	(3,729,948)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(316,776)	(364,926)	(374,491)
<b>Sub Total</b>	<b><u>(53,680,449)</u></b>	<b><u>(15,630,730)</u></b>	<b><u>(9,298,117)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>4,678,302</u></b>	<b><u>38,394,506</u></b>	<b><u>22,623,422</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	995,260	991,393	1,026,232
Annuity Reserve Fund	572,034	552,959	536,277
Military Service Fund	581	647	686
Expense Fund	<u>1,158,710</u>	<u>1,041,648</u>	<u>859,510</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>2,726,585</u></b>	<b><u>2,586,648</u></b>	<b><u>2,422,705</u></b>
Net Investment Income	<u>4,678,302</u>	<u>38,394,506</u>	<u>22,623,422</u>
Less: Total Income Required	<u>2,726,585</u>	<u>2,586,648</u>	<u>2,422,705</u>
<b>EXCESS INCOME TO THE PENSION FUND</b>	<b><u>\$1,951,717</u></b>	<b><u>\$35,807,859</u></b>	<b><u>\$20,200,717</u></b>



## Newton Retirement System

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$1,893,839	0.80%	100
Short Term		0	0.00%	100
Fixed Income		411,090	0.17%	30-80
Equities		0	0.00%	40
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		117,710,412	49.94%	70
Pooled International Equity Funds		43,757,292	18.57%	13
Pooled Global Equity Funds		0	0.00%	70
Pooled Domestic Fixed Income Funds		1,961,899	0.83%	30-80
Pooled International Fixed Income Funds		0	0.00%	5
Pooled Global Fixed Income Funds		58,100,782	24.65%	30-80
Pooled Alternative Investment Funds		0	0.00%	
Pooled Real Estate Funds		11,855,141	5.03%	10
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
<b>GRAND TOTALS</b>	<b>\$0</b>	<b>\$235,690,454</b>	<b>100.00%</b>	

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2000**, the rate of return for the investments of the **Newton** Retirement System was 2.11%. For the five year period ending December 31, **2000**, the rate of return for the investments of the **Newton** Retirement System averaged 13.42%. For the 16-year period ending December 31, **2000**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Newton** Retirement System was 11.82%.

# **Newton Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

The **Newton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

November 18, 1985

20.03(1) Equity investments shall not exceed 70% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

February 10, 1987

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

August 24, 1989

20.08(e) Enrollment in the Securities Lending Program offered by Boston Safe Deposit & Trust Company.

May 23, 1990

20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 13% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

January 3, 1992

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

# **Newton Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

January 21, 1992

20.07(6) Sales of equity investments shall not exceed 150% of the average market value of all equity holdings in any twelve-month period.

18.02(4) **Rate of Return.** The rate of return shall be at least 1% greater than the composite return of an index comprised of 40% of the S & P 500 Stock Index and 60% of the Shearson Lehman Government/Corporate Bond Index.

16.02(4) The board may employ a custodian bank and as of January 1, 1991, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

March 8, 1995

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

October 12, 1995

840 CMR 21.00: Prohibited Investments

(3) Future Contracts other than as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.

(b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

September 12, 1996

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERA Regulations 840 CMR.

## **Newton Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

November 22, 1996

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the total investment portfolio may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the total investment portfolio may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.

April 30, 1998

20.07(9) Commingled real estate shall not exceed 10% of the total book value at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

April 25, 2000

16.08 In accordance with PERAC Investment Guideline 99-2, the Newton Retirement System may invest in the Freedom Equity Style Fund. This change represents no basic difference in overall asset allocation, investment style, or in the universe of securities eligible for investment. By going from a separately managed account to a commingled fund that seeks to replicate the value component of the S&P 500 Index, the system will fulfill its investment strategy with a lower cost structure.

February 22, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Newton Retirement System may modify the structure of two of its domestic equity mandates from separately managed accounts to commingled funds. It is investing in the Freedom Capital Large Cap Value Fund and the David L. Babson Small Capitalization Value Fund. Both funds represent a continuation of the investment strategies followed by the respective prior separate accounts.

# **Newton Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Newton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Newton Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Fund after a period of ten years of inactivity.

# **Newton Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance. It also contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this account. See note A.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Fund.

*Note A: The Newton Retirement System under Chapter 614 of the Acts of 1951 established three Pensions Funds: the Pension Accumulation Fund, the Pension Reserve Fund and the Special Reserve Fund.*

*The Pension Accumulation Fund is the fund used to accumulate reserves for the payment of all pensions and other benefits payable from contributions made by the City, and from which all pensions and other benefits on account of members with prior service credit are paid. Contributions to and payments from the Pension Accumulation Fund are made as if all members were 4% contributors.*

*The Pension Reserve Fund is the fund used to disburse pensions paid to member's not entitled to credit for prior service and benefits*

*The Special Reserve Fund was established under this Act, however funds were not appropriated. In 1982, upon the recommendation of their Actuary, the Newton Retirement System combined the assets of the Pension Accumulation Fund and the Pension Reserve Fund with the Pension Fund which is serving in the same capacity as the three separate funds.*

# **Newton Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

#### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS**

The **Newton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 14, 1984

- Regularly employed part-time employees with 20 hours or more must join the retirement system.
- Buy-Backs Back payments must be paid in \$200 installments or more.
- Buy-Backs Members may buy back C.E.T.A. employment.
- Accidental disability applicants must be present when their application is presented to the board, unless a medical reason exists that prevents them from being present, and they must also submit an accident report or reports.

June 1, 1987

#### **MEMBERSHIP**

Part time, provisional, temporary or intermittent employees who are regularly employed by the City of Newton or Newton Public Schools for an average of a minimum of 20 hours per week are eligible for membership in the retirement system.

There shall be three designated categories of employees for the City of Newton and the Newton Public Schools:

1. Employees within category one shall be comprised of those persons who are permanent and are regularly employed for a minimum average of 37.5 hours per week, full time status.
2. Employees within category two shall be comprised of those persons who have only been employed as part time, provisional, temporary or intermittent employees, and who therefor work less than 37.5 hours per week, but at least 20 hours per week.
3. Employees within category three shall be comprised of those persons who have worked both full time (37.5 hours per week) and part-time (less than 37.5 hours per week but at least 20 hours per week) in their years of employment.

#### **CREDITABLE SERVICE**

Employees within category one shall be granted creditable service equal to 12 months for each year of employment.



## **Newton Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

Employees within category two shall be granted creditable service equal to 12 months for each year of employment if and only if their part time employment equals the total number of hours per week prescribed by the City of Newton or Newton Public Schools for that job title or position.

Employees within category three shall be granted creditable service equal to 12 months for each year of full time employment of 37.5 hours per week, and a pro rated period of years or fractions thereof equal to the percentage that their average actual hours worked per week bears to the average full time employment of 37.5 hours per week multiplied by the number of part time years of employment.

Employees of the City of Newton or the Newton Public Schools who are presently employed for less than an average of 20 hours per week and who have been previously accepted as members of the retirement system may retain their status as members in the system. For such persons, if their entire employment continues to be at less than an average of twenty hours per week, they shall be granted creditable service equal to 12 months for each year of part time employment if and only if their part time employment equals the total number of hours per week prescribed by the City of Newton or Newton Public Schools for that job title or position, as described for category two employees above. For such persons, if they at any time accept employment of at least an average 20 hours per week, then they shall be granted creditable service for such period prorated for the percentage that these actual work hours of at least an average of 20 hours per week bear to full time status of 37.5 hours per week. For the prior period of employment at less than an average of 20 hours per week, they shall be granted creditable service of a maximum of 6 months for each actual 12 month period of said part time employment.

Notwithstanding the above, those persons who as of May 12, 1987 are employed by the Newton Police Department as both (1) permanent traffic supervisors with permanent school crossing posts and (2) parking control officers (Meter Maids) shall receive creditable service as follows, given their membership in the Newton Retirement system.

Since employment as a permanent traffic supervisor is a pre-condition to appointment as a parking control officer, these persons shall receive 12 months creditable service for each year of prior permanent employment as a traffic supervisor alone, although the hours worked may have been less than 20 per week. Said persons shall also receive 12 months creditable service for each year of permanent employment as both a traffic supervisor and parking control officer. In all cases, the part time employment for each job title must equal the total number of hours per week prescribed by the City of Newton for the job titles of traffic supervisor and parking control officer.

These regulations shall apply to all full time, part time, provisional, temporary and intermittent employees of the City of Newton and the Newton Retirement System as well as those employees who are eligible to join the system in the future. The effective date of these regulations is May 1, 1987.

April 4, 2001

Only City of Newton employees and members of the Newton Retirement System are eligible to buy back creditable service for Newton CETA employment.

# Newton Retirement System

**NOTES TO FINANCIAL STATEMENTS** (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Comptroller who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: David Wilkinson

**Appointed Member:** Nunzio Piselli                      **Term Expires:** Indefinite

Elected Member: Robert Magni Term Expires: 09/09/04

Elected Member: Francis Capello Term Expires: 12/12/02

Appointed Member: Richard Heidlage                      Term Expires: 01/01/03

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$1,000,000/\$30,000,000
Elected Member:	)	Travelers
Appointed Member:	)	MACRS Policy
Staff Employee:	)	

# Newton Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants** as of **January 1, 2001**.

The actuarial liability for active members was	\$142,353,402
The actuarial liability for inactive and retired members was	126,307,175
The total actuarial liability was	<b>268,660,577</b>
System assets for valuation purposes as of that date were	<u>219,102,083</u>
The unfunded actuarial liability was	<b><u>\$49,558,494</u></b>
 The ratio of system's assets to total actuarial liability was	 81.6%
As of that date the total covered employee payroll was	\$60,769,380

The normal cost for the employer was 5.30% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.50% per annum  
**Rate of Salary Increase:** 5.00% per annum

### GASB STATEMENT NO. 25 DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/1999	\$ 176,284,000	\$ 239,946,000	\$63,662,000	73.5%	\$50,845,000	125.21%
1/1/2000	201,766,000	256,096,000	54,330,000	78.8%	54,975,000	98.83%
1/1/2001	219,102,000	268,660,000	49,558,000	81.6%	60,769,000	81.55%

# Newton Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000**

### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Superannuation	47	48	23	36	19	29	39	34	37	35
Ordinary Disability	2	0	0	0	0	1	1	1	1	1
Accidental Disability	3	10	6	6	3	14	2	2	3	1
<b>Total Retirements</b>	<b>52</b>	<b>58</b>	<b>29</b>	<b>42</b>	<b>22</b>	<b>44</b>	<b>42</b>	<b>37</b>	<b>41</b>	<b>37</b>
 Total Retirees, Beneficiaries and Survivors	 1,256	 1,283	 1,268	 1,279	 1,256	 1,263	 1,271	 1,267	 1,279	 1,260
 Total Active Members	 1,484	 1,449	 1,453	 1,458	 1,488	 1,487	 1,541	 1,586	 1,500	 1,721
 <b>Pension Payments</b>										
Superannuation	\$6,823,782	\$7,479,551	\$7,449,607	\$7,800,533	\$7,809,314	\$7,761,960	\$8,692,878	\$8,632,691	\$9,000,093	\$9,638,881
Survivor/Beneficiary Payments	808,413	875,302	880,489	906,425	964,604	997,078	1,077,204	1,129,242	1,234,250	1,285,014
Ordinary Disability	180,990	183,868	170,883	163,361	152,825	158,480	161,932	149,807	140,304	132,180
Accidental Disability	1,697,711	1,885,126	2,000,870	2,161,929	2,173,284	2,322,817	2,604,642	2,633,353	2,671,114	2,780,622
Other	<u>1,321,377</u>	<u>1,365,722</u>	<u>1,419,936</u>	<u>1,416,627</u>	<u>1,413,972</u>	<u>1,525,203</u>	<u>1,541,660</u>	<u>1,552,661</u>	<u>1,561,948</u>	<u>1,551,680</u>
<b>Total Payments for Year</b>	<b><u>\$10,832,273</u></b>	<b><u>\$11,789,569</u></b>	<b><u>\$11,921,785</u></b>	<b><u>\$12,448,875</u></b>	<b><u>\$12,513,999</u></b>	<b><u>\$12,765,538</u></b>	<b><u>\$14,078,316</u></b>	<b><u>\$14,097,754</u></b>	<b><u>\$14,607,710</u></b>	<b><u>\$15,388,377</u></b>